

**CITY OF MARION**

**Marion, Iowa**

**INDEPENDENT AUDITOR'S REPORTS**

**BASIC FINANCIAL STATEMENTS AND**

**SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FINDINGS**

**June 30, 2005**

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# CITY OF MARION

## City Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
John B. Nieland	Mayor	December 31, 2007
Walter Cram	Council Member-First Ward	December 31, 2007
Paul E. Rehn	Council Member-Second Ward	December 31, 2005
Kay A. Lammers	Council Member-Third Ward	December 31, 2007
Louis W. Stark	Council Member-Fourth Ward	December 31, 2005
Mary Lou Pazour	Council Member-At-Large	December 31, 2005
Nicholas A. Wagner	Council Member-At-Large	December 31, 2007
Jeffrey A. Schott	City Manager	Indefinite
Wesley A. Nelson	Finance Director/City Clerk	Indefinite
Donald C. Hoskins	City Attorney	Indefinite
Tom Trehame	Director of Planning and Development	Indefinite
Harry Daugherty	Chief of Police	Civil Service
Daniel Whitlow	City Engineer	Indefinite
Terry Jackson	Fire Chief	Civil Service
Susan Kling	Library Director	Indefinite
Richard Fox	Director of Parks and Recreation	Indefinite
Thomas Newbanks	Public Services Director	Indefinite
Robert A. Anderson	Marion Municipal Water Department - Trustee	November 1, 2008
Gregory O. Hapgood	Marion Municipal Water Department - Trustee 2003 Chairperson	November 1, 2010
Mary Ann McComas	Marion Municipal Water Department - Trustee 2004 Chairperson	November 1, 2006
David O. Kalkwarf	Marion Municipal Water Department - Administrator	Indefinite

**CITY OF MARION**

## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council  
City of Marion, Iowa:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Marion, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City of Marion's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City at June 30, 2005, and the results of its operations and the cash flows of its proprietary fund type for the year then ended in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2005 on our consideration of the City of Marion's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison information on pages 8 through 15 and 56 through 60 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marion's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the years ended June 30, 2004 and June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1-5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Cedar Rapids, Iowa  
August 31, 2005

## **Management's Discussion and Analysis**

As management of the City of Marion, Iowa, we offer readers of the City of Marion's financial statements this narrative and analysis of the financial statements of the City of Marion for the fiscal year ended June 30, 2005. This section should be read in conjunction with the financial statements and the accompanying notes that follow. It should also be noted that the information contained here will provide information on both the governmental operations and the business activities of the City.

### **Financial Highlights**

The assets of the City of Marion exceeded its liabilities at the close of June 30, 2005, by \$150.2 million (net assets). Of this amount, \$14.7 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

The government's total assets increased by \$7.2 million.

At the end of the current fiscal year, unreserved fund balance for the general fund was \$7.4 million, or 67.1 percent of the total General Fund expenditures. For the purpose of these financial statements, the General Fund also includes the Equipment Replacement and the Tax Stabilization Funds.

Total general obligation debt decreased by \$0.680 million. This was due to a new general obligation debt issue of \$0.700 million and subsequent retirements of \$1.380 million.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Marion's basic financial statements. The City of Marion's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The report consists of government-wide statements, fund financial statements, notes to the financial statements, combining schedules of non-major funds and supplementary information. The first several statements are highly condensed and present a government-wide view of the City's finances. The governmental activities of the City of Marion include general government, police and fire protection, streets and public buildings operation and maintenance, and parks and recreation activities. The major business-type activities include solid waste management collection and a sanitary sewer system. The City's only component unit, the Marion Municipal Water Department, is also included in the financial statements and notes.

### **Government-wide Financial Statements**

The government-wide financial statements include the Statement of Net Assets. The Statement of Net Assets presents information on all of the City of Marion's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. For the first time, government activities reflect capital assets including infrastructure and long-term liabilities and business activities reflect capital assets and long-term liabilities.



The Statement of Activities is also included in the government-wide financial statements. The focus of the Statement of Activities is to show how the government's assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide statements include the Statement of Net Assets and the Statement of Activities and can be found on pages 17-20 of this report.

### Statement of Net Assets for the Fiscal Years Ended June 30, 2005 and 2004

A condensed version of the Statement of Net Assets as of June 30, 2005 and 2004 follows:

	(in thousands)					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Government</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Cash and investments	\$ 23,688	\$ 24,997	\$ 6,029	\$ 5,454	\$ 29,717	\$ 30,451
Other assets	12,593	11,650	517	483	13,110	12,133
Capital assets	<u>115,741</u>	<u>109,431</u>	<u>16,417</u>	<u>15,759</u>	<u>132,158</u>	<u>125,190</u>
Total assets	<u>\$152,022</u>	<u>\$146,078</u>	<u>\$ 22,963</u>	<u>\$ 21,696</u>	<u>\$174,985</u>	<u>\$167,774</u>
Other liabilities	\$ 12,797	\$ 11,449	\$ 218	\$ 142	\$ 13,015	\$ 11,591
Noncurrent liabilities	<u>11,794</u>	<u>12,336</u>	<u>17</u>	<u>53</u>	<u>11,811</u>	<u>12,389</u>
Total liabilities	<u>\$ 24,591</u>	<u>\$ 23,785</u>	<u>\$ 235</u>	<u>\$ 195</u>	<u>\$ 24,826</u>	<u>\$ 23,980</u>
Net assets:						
Invested in capital assets, net of debt	\$105,173	\$ 98,161	\$ 16,311	\$ 15,692	\$121,484	\$113,853
Restricted	10,073	10,901	3,915	3,201	13,988	14,102
Unrestricted	<u>12,185</u>	<u>13,231</u>	<u>2,502</u>	<u>2,607</u>	<u>14,687</u>	<u>15,838</u>
Total net assets	<u>\$127,431</u>	<u>\$122,293</u>	<u>\$ 22,728</u>	<u>\$ 21,500</u>	<u>\$150,159</u>	<u>\$143,793</u>

### Governmental Activities

Net assets increased mainly due to improvements other than buildings increasing \$5.1 million for the fiscal year 2005. The majority of the increase was due to street construction.

### Business-type Activities

Total assets increased by \$1.2 million for the fiscal year 2005 primarily due to equipment purchases and system improvements.

## Statements of Activities for the Fiscal Years Ended June 30, 2005 and 2004

A summary version of the Statement of Activities follows:

	(in thousands)					
	Governmental Activities		Business-type Activities		Total Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Charges for services	\$ 1,280	\$ 1,167	\$ 3,402	\$ 3,297	\$ 4,682	\$ 4,464
Operating grants and contributions	498	459	-	-	498	459
Capital grants and contributions	5,449	9,864	843	1,341	6,292	11,205
General revenues:						
Property taxes	10,914	10,241	-	-	10,914	10,241
Other taxes	695	870	-	-	695	870
Franchise fees	-	47	-	-	-	47
Road Use Taxes	2,183	2,203	-	-	2,183	2,203
Investment income	916	658	204	127	1,120	785
Miscellaneous revenue	<u>113</u>	<u>20</u>	<u>92</u>	<u>84</u>	<u>205</u>	<u>104</u>
Total revenues	<u>22,048</u>	<u>25,529</u>	<u>4,541</u>	<u>4,849</u>	<u>26,589</u>	<u>30,378</u>
Expenses:						
Public safety	6,748	5,665	-	-	6,748	5,665
Public works	4,679	3,810	-	-	4,679	3,810
Culture and recreation	2,889	2,185	-	-	2,889	2,185
Community and economic development	1,067	1,092	-	-	1,067	1,092
General government	1,217	1,297	-	-	1,217	1,297
Interest on long-term debt	491	469	-	-	491	469
Sanitary sewer	-	-	1,966	1,876	1,966	1,876
Solid waste management	<u>-</u>	<u>-</u>	<u>1,175</u>	<u>986</u>	<u>1,175</u>	<u>986</u>
Total expenses	<u>17,091</u>	<u>14,518</u>	<u>3,141</u>	<u>2,862</u>	<u>20,232</u>	<u>17,380</u>
Transfers	<u>172</u>	<u>190</u>	<u>(172)</u>	<u>(190)</u>	<u>-</u>	<u>-</u>
Changes in net assets	5,129	11,201	1,228	1,797	6,357	12,998
Beginning net assets	<u>122,302</u>	<u>111,092</u>	<u>21,500</u>	<u>19,703</u>	<u>143,802</u>	<u>130,795</u>
Ending net assets	<u>\$127,431</u>	<u>\$122,293</u>	<u>\$ 22,728</u>	<u>\$ 21,500</u>	<u>\$150,159</u>	<u>\$143,793</u>

## **Governmental Activities**

Charges for services make up 5.8 percent of governmental revenues. Operating and capital grants, primarily for street projects and building improvement projects, make up another 27.0 percent of governmental revenues. The remaining revenue comes from taxes, primarily property taxes, and interest revenue.

## **Business-type Activities**

As expected, charges for services is the primary revenue source for business-type activities. Sanitary sewer fees and solid waste fees are the primary charges for services that make up 74.9 percent of total revenues. Investment income accounts for an additional 4.5 percent of total revenues.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

## **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers can better understand the long-term impact of the City's near term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Marion maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance for the General fund and the Capital Projects fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the report. The basic governmental financial statements can be found on pages 21-28 of this report.

## **Proprietary Funds**

The City of Marion maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its storm water, solid waste and sanitary sewer operations. Internal service funds are an accounting device used to accumulate and allocate internally among the City's various functions. The City of Marion uses an internal service fund to account for its city provided health insurance. Because this service predominately benefits governmental rather than business-type functions, it has been included within the governmental activities in the governmental-wide financial statements.

Proprietary funds provide the same type of information as government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sanitary Sewer operations as this is considered a major fund of the City. Individual fund data for each of the non-major enterprise funds is provided in the form of combining statements elsewhere in this report. The Internal Service fund is shown in the proprietary fund financial statements. The basic proprietary financial statements can be found on pages 29-36 of this report.

## **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected on the government-wide financial statements because the resources of these funds are not available to support the City of Marion's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on pages 37-38 of this report.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 39-55 of this report.

## **Budgetary Highlights - General Fund**

The City had one budget amendment during the fiscal year, which is our common practice. The major increases in expenses were due to increased expenses for higher fuel costs, police overtime, flood related expenses, professional fees for landfill issue, carryover of capital projects and equipment replacements from the prior year, unexpected expenditures relating to state and federal grants and additional water department capital costs.

## Capital Assets and Debt Administration

### Capital Assets

As of June 30, 2005, the City had invested \$132.1 million (net of depreciation) in capital assets as are reflected in the following table. These investments include land, buildings, improvements, machinery and equipment, roads, bridges and infrastructure.

	(in thousands-net of depreciation)					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Government</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Land	\$ 51,715	\$ 48,589	\$ -	\$ -	\$ 51,715	\$ 48,589
Building and structures	9,203	8,602	-	-	9,203	8,602
Improvements other than buildings	78,174	71,727	-	-	78,174	71,727
Machinery and equipment	6,501	5,874	1,529	1,501	8,030	7,375
Distribution system	-	-	26,323	25,206	26,323	25,206
Construction in progress	1,430	2,787	227	208	1,657	2,995
Accumulated depreciation	<u>(31,291)</u>	<u>(28,178)</u>	<u>(11,703)</u>	<u>(11,212)</u>	<u>(42,994)</u>	<u>(39,390)</u>
<b>Total</b>	<b><u>\$115,732</u></b>	<b><u>\$109,401</u></b>	<b><u>\$ 16,376</u></b>	<b><u>\$ 15,703</u></b>	<b><u>\$132,108</u></b>	<b><u>\$125,104</u></b>

The following table reconciles the change in capital assets. The amount for governmental activities is \$6.3 million, which represents a 5.8 percent increase. For business-type activities, the amount is \$0.7 million, which is a 4.3 percent increase. Detail of this summary is presented on pages 49-51 of the notes.

	(in thousands)					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Government</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Beginning balance	\$109,401	\$ 99,218	\$ 15,703	\$ 14,282	\$125,104	\$113,500
Additions	8,245	10,513	1,034	1,777	9,279	12,290
Retirements - net of depreciation	(33)	(32)	(1)	(45)	(34)	(77)
Depreciation	(3,311)	(3,085)	(587)	(519)	(3,898)	(3,604)
Construction in progress	<u>1,430</u>	<u>2,787</u>	<u>227</u>	<u>208</u>	<u>1,657</u>	<u>2,995</u>
<b>Ending Balance</b>	<b><u>\$115,732</u></b>	<b><u>\$109,401</u></b>	<b><u>\$ 16,376</u></b>	<b><u>\$ 15,703</u></b>	<b><u>\$132,108</u></b>	<b><u>\$125,104</u></b>

### Governmental Activities

Major additions to capital assets consisted primarily of streets, storm sewers and equipment. Primary retirements were the replacement of several police cars and a fire chassis that were scheduled to be replaced based on an on-going replacement schedule.

## **Business-type Activities**

Sanitary sewer improvements amounted to just under a million dollars. Annually, the solid waste division replaces a garbage truck at a cost of around \$130,000 as a scheduled replacement.

## **Debt Administration**

The amount of general obligation debt outstanding at fiscal year end was \$10.6 million as compared to \$11.2 million the prior fiscal year. This debt is backed by the full faith and credit of the City. Every other year, the City issues a general obligation bond issue to fund various street, sewer and other essential corporate purpose projects.

Moody's Investment Services has rated the City's general obligation bonds at Aa2 since December 2001. Prior to that date, the City's bonds were rated at Aa3, which was an upgrade from an A1 that was made in December 1999.

For more detailed information on the City's debt, please refer to pages 51-52 of the Notes to the Financial Statements.

## **Economic Factors**

The unemployment rate for Linn County is currently at 4.8 percent, which is slightly higher than the previous year of 4.5 percent, but less than the National unemployment rate of 4.9 percent. Although this rate has risen, it is not necessarily a bad sign due to the fact the labor force was so tight previously it was sometimes difficult to find qualified workers.

Retail sales are also reported on a fiscal year, April 1 to March 31, basis. For fiscal year 2004, most recent available (April 1, 2003 to March 31, 2004), retail sales for Marion were \$259.1 million and \$2,832.7 million for Linn County. For fiscal year 2003, retail sales were \$252.2 million for Marion and \$2,751.3 million for Linn County.

The total value of building permits for fiscal year 2005 was approximately \$63.8 million, which is up from the fiscal year 2004 amount of \$56.0 million. The past few fiscal years have been strong with the construction of two large retail outlets, a new school, two large industrial facilities and several large multi-family residential projects.

## **Next Year's Budget and Rates**

The City Council established the goal that the fiscal year 05-06 budget should not increase City property tax payments for the typical homeowner by more than 2.5 percent. The adopted budget achieves this goal with an increase of 1.3 percent and accomplishes all of the Council's long-standing objectives including maintaining the current level of services, maintaining adequate levels of cash reserves and complying with all of the City's financial policies.

The City does anticipate a substantial increase in sanitary sewer operational costs and as a result, the budget calls for an 8.1% increase in sewer fees. The City does not anticipate an increase in landfill fees but is planning on adding an additional truck and equipment operator. Even with these additional costs, no rate increases are proposed for solid waste fees.

The total City tax levy rate for fiscal year 05-06 is 13.98852 per taxable valuation compared to 13.65103 for fiscal year 04-05. Net taxable valuation for fiscal year 05-06 is \$839.1 million, which was an increase of \$42.6 million from fiscal year 04-05 when it was \$796.5 million.

## **Financial Information Contact**

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the Office of the Finance Director at 1100 8<sup>th</sup> Avenue, City Hall, Marion, Iowa 52302.

## **FINANCIAL STATEMENTS**



# CITY OF MARION

## Statement of Net Assets

**For the Year Ended June 30, 2005**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business Activities</b>	<b>Totals</b>	<b>Water</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash investments	\$ 23,688,388	\$ 6,029,465	\$ 29,717,853	\$ 1,745,367
Receivables:				
Property tax	11,631,566	-	11,631,566	-
Accounts	60,650	179,628	240,278	259,269
Unbilled revenue	-	324,754	324,754	523,497
Interest	40,411	10,333	50,744	-
Notes	30,627	-	30,627	-
Due from other governments	220,241	2,247	222,488	-
Inventories	84,785	-	84,785	81,876
Prepaid items	80,792	-	80,792	17,015
Restricted assets:				
Internal balances	<u>443,699</u>	<u>-</u>	<u>443,699</u>	<u>-</u>
Total current assets	<u>36,281,159</u>	<u>6,546,427</u>	<u>42,827,586</u>	<u>2,627,024</u>
Noncurrent assets:				
Notes receivable	7,971	41,065	49,036	-
Land	51,715,226	-	51,715,226	325,254
Buildings	9,203,459	-	9,203,459	-
Improvements other than buildings	78,174,260	-	78,174,260	-
Equipment	6,501,393	1,528,678	8,030,071	394,040
Distribution system	-	25,864,059	25,864,059	9,362,003
Storm water system	-	458,868	458,868	-
Accumulated depreciation	(31,291,152)	(11,702,656)	(42,993,808)	(2,048,765)
Construction in progress	<u>1,429,722</u>	<u>226,766</u>	<u>1,656,488</u>	<u>261,848</u>
Total noncurrent assets	<u>115,740,879</u>	<u>16,416,780</u>	<u>132,157,659</u>	<u>8,294,380</u>
<b>TOTAL ASSETS</b>	<u>\$ 152,022,038</u>	<u>\$ 22,963,207</u>	<u>\$ 174,985,245</u>	<u>\$ 10,921,404</u>

	Primary Government			Component Unit
	Governmental Activities	Business Activities	Totals	Water
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 894,847	\$ 191,231	\$ 1,086,078	\$ 69,340
Accrued payroll	316,963	26,446	343,409	22,198
Interest payable	45,735	-	45,735	-
Other accrued expenses	-	-	-	4,213
Deferred revenue	11,539,135	-	11,539,135	-
Due to primary government	-	-	-	504,355
Total current liabilities	<u>12,796,680</u>	<u>217,677</u>	<u>13,014,357</u>	<u>600,106</u>
Noncurrent liabilities:				
Due within one year:				
General obligation bonds payable	1,440,000	-	1,440,000	-
Notes payable	-	-	-	-
Compensated absences	774,894	17,429	792,323	32,420
Due after one year:				
General obligation bonds payable	9,120,000	-	9,120,000	-
Notes payable	-	-	-	-
Compensated absences	<u>459,721</u>	<u>-</u>	<u>459,721</u>	<u>25,997</u>
Total noncurrent liabilities	<u>11,794,615</u>	<u>17,429</u>	<u>11,812,044</u>	<u>58,417</u>
Total liabilities	<u>24,591,295</u>	<u>235,106</u>	<u>24,826,401</u>	<u>658,523</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	105,172,908	16,311,446	121,484,354	8,294,380
Restricted for:				
Future construction	10,073,335	3,914,713	13,988,048	150,000
Unrestricted	<u>12,184,500</u>	<u>2,501,942</u>	<u>14,686,442</u>	<u>1,818,501</u>
<b>TOTAL NET ASSETS</b>	<u>\$ 127,430,743</u>	<u>\$ 22,728,101</u>	<u>\$ 150,158,844</u>	<u>\$ 10,262,881</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

# CITY OF MARION

## Statement of Activities

For the Year Ended June 30, 2005

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government				
Governmental Activities:				
Operating:				
Public Safety	\$ 6,747,320	\$ 270,871	\$ 97,123	\$ 4,653
Public Works	4,679,145	107,104	-	4,964,446
Culture and Recreation	2,888,484	262,873	177,717	-
Community and Economic Development	1,067,288	604,010	-	-
General Government	1,217,180	34,824	223,036	479,466
Interest	<u>491,352</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Governmental Activities	<u>17,090,769</u>	<u>1,279,682</u>	<u>497,876</u>	<u>5,448,565</u>
Business Activities:				
Sewer	1,966,428	2,372,429	-	843,471
Solid Waste	<u>1,175,578</u>	<u>1,029,331</u>	<u>-</u>	<u>-</u>
Total Business Activities	<u>3,142,006</u>	<u>3,401,760</u>	<u>-</u>	<u>843,471</u>
Total Primary Government	<u>20,232,775</u>	<u>4,681,442</u>	<u>497,876</u>	<u>6,292,036</u>
Component Unit:				
Water	<u>4,960,930</u>	<u>5,266,094</u>	<u>-</u>	<u>563,454</u>
General Revenues:				
Property taxes				
TIF revenue				
Other city taxes				
Road use tax				
State replacement tax				
Franchise taxes				
Investment income				
Assessments				
Miscellaneous revenue				
Gain on sale of capital assets				
Transfers				
Change in net assets				
Net assets, beginning				
Net assets, ending				

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component
Governmental Activities	Business Activities	Total	Unit Water
\$ (6,374,673)	\$ -	\$ (6,374,673)	\$ -
392,405	-	392,405	-
(2,447,894)	-	(2,447,894)	-
(463,278)	-	(463,278)	-
(479,854)	-	(479,854)	-
(491,352)	-	(491,352)	-
(9,864,646)	-	(9,864,646)	-
-	1,249,472	1,249,472	-
-	(146,247)	(146,247)	-
-	1,103,225	1,103,225	-
(9,864,646)	1,103,225	(8,761,421)	-
-	-	-	868,618
10,914,028	-	10,914,028	-
313,457	-	313,457	-
381,283	-	381,283	-
2,183,100	-	2,183,100	-
-	-	-	-
-	-	-	-
916,120	203,684	1,119,804	30,553
59,444	-	59,444	-
7,140	92,334	99,474	-
46,257	-	46,257	-
171,888	(171,888)	-	(147)
14,992,717	124,130	15,116,847	30,406
5,128,071	1,227,355	6,355,426	899,024
122,302,672	21,500,746	143,803,418	9,363,857
<u>\$127,430,743</u>	<u>\$ 22,728,101</u>	<u>\$150,158,844</u>	<u>\$ 10,262,881</u>

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

# CITY OF MARION

## Balance Sheet Governmental Funds

June 30, 2005

	<u>General</u>	<u>Road Use</u>	<u>Employee Benefits</u>
Assets:			
Cash and investments	\$ 7,679,773	\$ 1,368,152	\$ 271,220
Receivables:			
Property tax	7,347,554	-	2,611,666
Accounts	59,470	-	-
Interest	12,118	-	-
Notes	-	-	-
Due from other governments	30,753	172,643	-
Inventories	<u>84,785</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$ 15,214,453</u>	<u>\$ 1,540,795</u>	<u>\$ 2,882,886</u>
Liabilities:			
Accounts payable	\$ 110,575	\$ 98,131	\$ 6,262
Accrued expenses	287,037	29,926	-
Deferred revenue	<u>7,287,599</u>	<u>-</u>	<u>2,593,489</u>
Total liabilities	<u>7,685,211</u>	<u>128,057</u>	<u>2,599,751</u>
Fund balances:			
Reserved for inventories	84,784	-	-
Unreserved	<u>7,444,458</u>	<u>1,412,738</u>	<u>283,135</u>
Total fund balances	<u>7,529,242</u>	<u>1,412,738</u>	<u>283,135</u>
Total liabilities and fund balances	<u>\$ 15,214,453</u>	<u>\$ 1,540,795</u>	<u>\$ 2,882,886</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 137,388	\$ 10,660,119	\$ 3,571,736	\$ 23,688,388
1,672,346	-	-	11,631,566
-	-	1,180	60,650
-	21,434	6,859	40,411
-	-	38,598	38,598
1,239	15,606	-	220,241
<u>-</u>	<u>-</u>	<u>-</u>	<u>84,785</u>
<u>\$ 1,810,973</u>	<u>\$ 10,697,159</u>	<u>\$ 3,618,373</u>	<u>\$ 35,764,639</u>
\$ -	\$ 623,824	\$ 56,055	\$ 894,847
-	-	-	316,963
<u>1,658,047</u>	<u>-</u>	<u>-</u>	<u>11,539,135</u>
<u>1,658,047</u>	<u>623,824</u>	<u>56,055</u>	<u>12,750,945</u>
-	-	-	84,784
<u>152,926</u>	<u>10,073,335</u>	<u>3,562,318</u>	<u>22,928,910</u>
<u>152,926</u>	<u>10,073,335</u>	<u>3,562,318</u>	<u>23,013,694</u>
<u>\$ 1,810,973</u>	<u>\$ 10,697,159</u>	<u>\$ 3,618,373</u>	<u>\$ 35,764,639</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

## CITY OF MARION

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2005

Fund balances - total government funds		\$ 23,013,694
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported in funds		115,732,908
Other long-term assets not available to pay for current-period expenditures and, therefore, are deferred in the funds		-
Internal service funds, net assets		443,700
Long-term liabilities, including bonds payable, are not due and payable in current period and, therefore, are not reported in the funds:		
Compensated absences	\$ (1,234,616)	
Bonds payable	(10,560,000)	
Accrued interest	(45,735)	
Bond issuance costs	<u>80,792</u>	<u>(11,759,559)</u>
Net assets - governmental activities		<u>\$ 127,430,743</u>

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

**CITY OF MARION**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Governmental Funds**

**For the Year Ended June 30, 2005**

	<u><b>General</b></u>	<u><b>Road Use</b></u>	<u><b>Employee Benefits</b></u>
Revenues:			
Property taxes	\$ 7,077,968	\$ -	\$ 2,114,637
Tax increment financing	-	-	-
Other taxes	381,283	-	-
Licenses and permits	604,373	-	-
Use of money and property	385,199	-	1,285
Intergovernmental	401,434	2,183,100	71,284
Charges for services	340,608	-	-
Fines and forfeitures	195,373	-	-
Special assessments	2,720	-	-
Miscellaneous	<u>62,866</u>	<u>-</u>	<u>40,695</u>
Total revenues	<u>9,451,824</u>	<u>2,183,100</u>	<u>2,227,901</u>
Expenditures:			
Operating:			
Public safety	6,195,643	65	49,413
Public works	810,228	1,559,649	-
Culture and recreation	2,224,101	-	48,086
Community and economic development	621,092	-	-
General government	1,248,325	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Bond issue costs	-	-	-
Capital outlay	<u>-</u>	<u>473,336</u>	<u>-</u>
Total expenditures	<u>11,099,389</u>	<u>2,033,050</u>	<u>97,499</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,647,565)</u>	<u>150,050</u>	<u>2,130,402</u>
Other financing sources (uses):			
Transfers in (out):			
Operating transfers in	3,116,067	-	-
Operating transfers out	(2,041,124)	(339,799)	(2,111,396)
Sale of equipment	-	-	-
Bond proceeds	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources (uses)	<u>1,074,943</u>	<u>(339,799)</u>	<u>(2,111,396)</u>



<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
\$ 1,721,423	\$ -	\$ -	\$ 10,914,028
-	-	313,457	313,457
-	-	-	381,283
-	-	-	604,373
17,543	382,947	129,881	916,855
-	479,467	4,560	3,139,845
-	1,439	15,720	357,767
-	-	-	195,373
56,724	-	-	59,444
<u>-</u>	<u>77,080</u>	<u>(160)</u>	<u>180,481</u>
<u>1,795,690</u>	<u>940,933</u>	<u>463,458</u>	<u>17,062,906</u>
-	-	1,365	6,246,486
-	-	5,578	2,375,455
-	-	5,563	2,277,750
-	-	440,446	1,061,538
-	-	-	1,248,325
1,380,000	-	-	1,380,000
509,434	-	-	509,434
28,100	-	52,692	80,792
<u>-</u>	<u>3,776,832</u>	<u>416,478</u>	<u>4,666,646</u>
<u>1,917,534</u>	<u>3,776,832</u>	<u>922,122</u>	<u>19,846,426</u>
<u>(121,844)</u>	<u>(2,835,899)</u>	<u>(458,664)</u>	<u>(2,783,520)</u>
201,793	1,312,000	306,677	4,936,537
-	-	(272,331)	(4,764,650)
-	-	-	-
<u>-</u>	<u>696,432</u>	<u>-</u>	<u>696,432</u>
<u>201,793</u>	<u>2,008,432</u>	<u>34,346</u>	<u>868,319</u>

(continued)

**CITY OF MARION**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance**  
**Governmental Funds**

**For the Year Ended June 30, 2005**

	<b><u>General</u></b>	<b><u>Road Use</u></b>	<b><u>Employee Benefits</u></b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(572,622)	(189,749)	19,006
Beginning Fund Balance	<u>8,101,864</u>	<u>1,602,487</u>	<u>264,129</u>
Ending Fund Balance	<u>\$ 7,529,242</u>	<u>\$ 1,412,738</u>	<u>\$ 283,135</u>

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
79,949	(827,467)	(424,318)	(1,915,201)
<u>72,977</u>	<u>10,900,802</u>	<u>3,986,636</u>	<u>24,928,895</u>
<u>\$ 152,926</u>	<u>\$ 10,073,335</u>	<u>\$ 3,562,318</u>	<u>\$ 23,013,694</u>

These financial statements should be read only in connection with the accompanying notes to the financial statements.

## CITY OF MARION

**Reconciliation of Statement of Revenues, Expenditures  
and Changes in Fund Balances - Governmental Funds  
to the Statement of Activities**

**For the Year Ended June 30, 2005**

Net change in fund balances - total governmental funds \$ (1,915,201)

Amounts reported for governmental activities in the statement of activities  
are different because:

In the Statement of Activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from sale of capital assets increase financial resources. Thus, the change in fund balance differs by the cost of the capital asset sold 12,319

Governmental funds reported capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay	\$ 4,666,646	
Depreciation expense	<u>(3,311,105)</u>	1,355,541

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds 4,964,446

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal on long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items:

Bond proceeds	(700,000)	
Repayment of bond principal	1,380,000	
Accrued interest	41,713	
Bond issuance costs	<u>53,592</u>	775,305

Expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported in governmental funds (138,346)

Internal service funds net change 74,007

Change in net assets - governmental activities \$ 5,128,071

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

# CITY OF MARION

## Statement of Net Assets Proprietary Funds

June 30, 2005

<b>Business-type Activities - Enterprise Funds</b>				
	<b><u>Sewer Rental</u></b>	<b><u>Solid Waste</u></b>	<b><u>Other</u></b>	<b><u>Totals</u></b>
Assets:				
Current assets:				
Cash and investments	\$ 888,454	\$ 1,292,781	\$ 3,848,230	\$ 6,029,465
Receivables:				
Accounts	117,085	62,515	28	179,628
Unbilled revenue	226,962	97,792	-	324,754
Due from other governments	578	1,669	-	2,247
Interest	-	1,833	8,500	10,333
Total current assets	<u>1,233,079</u>	<u>1,456,590</u>	<u>3,856,758</u>	<u>6,546,427</u>
Noncurrent assets:				
Notes receivable	-	-	41,065	41,065
Equipment	465,032	1,063,646	-	1,528,678
Distribution system	25,864,059	-	-	25,864,059
Storm sewer system	-	-	458,868	458,868
Accumulated depreciation	(11,342,793)	(350,856)	(9,007)	(11,702,656)
Construction in progress	125,538	-	101,228	226,766
Total noncurrent assets	<u>15,111,836</u>	<u>712,790</u>	<u>592,154</u>	<u>16,416,780</u>
Total assets	<u>\$16,344,915</u>	<u>\$ 2,169,380</u>	<u>\$ 4,448,912</u>	<u>\$22,963,207</u>
Liabilities:				
Current liabilities:				
Accounts payable	\$ 99,203	\$ 44,649	\$ 47,379	\$ 191,231
Accrued payroll	11,357	15,089	-	26,446
Total current liabilities	<u>110,560</u>	<u>59,738</u>	<u>47,379</u>	<u>217,677</u>
Noncurrent liabilities:				
Due within one year:				
Compensated absences	17,429	-	-	17,429
Notes payable	-	-	-	-
Due after one year:				
Notes payable	-	-	-	-
Total noncurrent liabilities	<u>17,429</u>	<u>-</u>	<u>-</u>	<u>17,429</u>
Total liabilities	<u>127,989</u>	<u>59,738</u>	<u>47,379</u>	<u>235,106</u>
Net Assets:				
Invested in capital assets, net of related debt	15,111,836	712,790	486,820	16,311,446
Restricted for:				
Future construction	-	-	3,914,713	3,914,713
Unrestricted	1,105,090	1,396,852	-	2,501,942
Total net assets	<u>\$16,216,926</u>	<u>\$ 2,109,642</u>	<u>\$ 4,401,533</u>	<u>\$22,728,101</u>

**Governmental  
Activities-  
Internal Service  
Fund**

\$ 529,075

-

-

-

-

529,075

-

-

-

-

-

-

\$ 529,075

\$ 85,376

-

85,376

-

-

-

-

85,376

-

-

443,699

\$ 443,699

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

**CITY OF MARION**

**Statement of Revenues, Expenses and  
Changes in Fund Net Assets  
Proprietary Funds**

**For the Year Ended June 30, 2005**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Sewer Rental</b>	<b>Solid Waste</b>	<b>Other</b>	<b>Totals</b>
Operating revenue:				
Charges for services	\$ 1,693,081	\$ 878,345	\$ 830,334	\$ 3,401,760
Miscellaneous revenues	<u>-</u>	<u>92,334</u>	<u>-</u>	<u>92,334</u>
Total operating revenue	<u>1,693,081</u>	<u>970,679</u>	<u>830,334</u>	<u>3,494,094</u>
Operating expense:				
Business type activities:				
Personal services	353,212	531,406	-	884,618
Services and commodities	1,057,062	500,889	111,672	1,669,623
Depreciation	<u>434,408</u>	<u>143,283</u>	<u>9,007</u>	<u>586,698</u>
Total operating expense	<u>1,844,682</u>	<u>1,175,578</u>	<u>120,679</u>	<u>3,140,939</u>
Operating income (loss)	<u>(151,601)</u>	<u>(204,899)</u>	<u>709,655</u>	<u>353,155</u>
Nonoperating revenue (expense):				
Investment income	21,704	35,075	146,905	203,684
Interest expense	<u>(1,067)</u>	<u>-</u>	<u>-</u>	<u>(1,067)</u>
Total nonoperating revenue	<u>20,637</u>	<u>35,075</u>	<u>146,905</u>	<u>202,617</u>
Income (loss) before contributions and transfers	(130,964)	(169,824)	856,560	555,772
Capital contributions	843,471	-	-	843,471
Transfers in	10,963	343,217	-	354,180
Transfers out	<u>(111,793)</u>	<u>(43,636)</u>	<u>(370,639)</u>	<u>(526,068)</u>
Change in net assets	611,677	129,757	485,921	1,227,355
Beginning net assets	<u>15,605,249</u>	<u>1,979,885</u>	<u>3,915,612</u>	<u>21,500,746</u>
Ending net assets	<u>\$16,216,926</u>	<u>\$ 2,109,642</u>	<u>\$ 4,401,533</u>	<u>\$22,728,101</u>

**Governmental  
Activities-  
Internal Service  
Fund**

\$ -  
1,345,954  
1,345,954

-  
1,271,947  
-  
1,271,947  
74,007

-  
-  
-

74,007  
-  
-  
-  
74,007  
369,692  
\$ 443,699

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.



**CITY OF MARION**  
**Statement of Cash Flows**  
**Proprietary Funds**

**June 30, 2005**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b><u>Sewer Rental</u></b>	<b><u>Solid Waste</u></b>	<b><u>Other</u></b>	<b><u>Totals</u></b>
Cash flows from operating activities:				
Cash received from users	\$ 1,663,575	\$ 967,611	\$ 830,306	\$ 3,461,492
Cash paid to employees	(356,381)	(529,985)	-	(886,366)
Cash paid to suppliers	<u>(1,039,424)</u>	<u>(480,077)</u>	<u>(73,753)</u>	<u>(1,593,254)</u>
Net cash provided by (used in) operating activities	<u>267,770</u>	<u>(42,451)</u>	<u>756,553</u>	<u>981,872</u>
Cash flows from non-capital financing activities:				
Operating transfers in (out)	<u>(100,830)</u>	<u>(43,636)</u>	<u>(16,459)</u>	<u>(160,925)</u>
Net cash flows used in non-capital financing activities	<u>(100,830)</u>	<u>(43,636)</u>	<u>(16,459)</u>	<u>(160,925)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	(208,419)	(29,501)	(188,888)	(426,808)
Principal paid	(34,341)	-	-	(34,341)
Interest paid	<u>(1,067)</u>	<u>-</u>	<u>-</u>	<u>(1,067)</u>
Net cash flows used in capital and related financing activities	<u>(243,827)</u>	<u>(29,501)</u>	<u>(188,888)</u>	<u>(462,216)</u>
Cash flows from investing activities:				
Interest on investments	21,704	33,242	146,905	201,851
Payments received on notes receivable	-	-	14,933	14,933
Proceeds from government securities	-	601,777	-	601,777
Purchase of government securities	<u>(4,644)</u>	<u>(416,387)</u>	<u>-</u>	<u>(421,031)</u>
Net cash flows provided by investing activities	<u>17,060</u>	<u>218,632</u>	<u>161,838</u>	<u>397,530</u>
Net increase (decrease) in cash and cash equivalents	(59,827)	103,044	713,044	756,261
Cash and cash equivalents, June 30, 2004	<u>641,887</u>	<u>54,885</u>	<u>1,356,551</u>	<u>2,053,323</u>
Cash and cash equivalents, June 30, 2005	<u>\$ 582,060</u>	<u>\$ 157,929</u>	<u>\$ 2,069,595</u>	<u>\$ 2,809,584</u>

**Governmental  
Activities-  
Internal Service  
Fund**

\$ 1,345,954  
(1,305,346)

-

40,608

-

-

-

-

-

-

-

-

-

-

-

40,608

488,467

\$ 529,075

(continued)

**CITY OF MARION**  
**Statement of Cash Flows**  
**Proprietary Funds**

**June 30, 2005**

	<b>Business-type Activities- Enterprise Funds</b>			
	<b><u>Sewer Rental</u></b>	<b><u>Solid Waste</u></b>	<b><u>Other</u></b>	<b><u>Totals</u></b>
Reconciliaton of operating income (loss) to net cash flows from operating activities:				
Operating income	\$ (151,601)	\$ (204,899)	\$ 709,655	\$ 353,155
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation expense	434,408	143,283	9,007	586,698
Change in assets and liabilities:				
Receivables	(28,928)	(1,399)	-	(30,327)
Due from other governments	(578)	(1,668)	(28)	(2,274)
Accounts payable	17,638	20,812	37,919	76,369
Accrued payroll	(2,059)	1,420	-	(639)
Accrued compensated absences	<u>(1,110)</u>	<u>-</u>	<u>-</u>	<u>(1,110)</u>
Net cash from operating activities	<u>\$ 267,770</u>	<u>\$ (42,451)</u>	<u>\$ 756,553</u>	<u>\$ 981,872</u>
Schedule of noncash capital and related financing activities:				
Acquisition of assets through contributions	\$ 843,471	\$ -	\$ -	\$ 843,471

**Governmental  
Activities-  
Internal Service  
Fund**

---

\$ 74,007

-

-

-

(33,399)

-

-

---

\$ 40,608

\$ -

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

**CITY OF MARION**  
**Statement of Fiduciary Assets and Liabilities**  
**Trust Funds**  
**June 30, 2005**

	<b><u>Cemetery Perpetual Care</u></b>	<b><u>Cemetery Memorial</u></b>	<b><u>Library Memorial</u></b>	<b><u>Total</u></b>
Assets:				
Cash and investments	\$ <u>126,910</u>	\$ <u>839</u>	\$ <u>-</u>	\$ <u>127,749</u>
Net Assets:				
Held in trust	<u>126,910</u>	<u>839</u>	<u>-</u>	<u>127,749</u>
Total liabilities and net assets	\$ <u>126,910</u>	\$ <u>839</u>	\$ <u>-</u>	\$ <u>127,749</u>

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

**CITY OF MARION**  
**Statement of Changes in Fiduciary Net Assets**  
**Trust Funds**

**June 30, 2005**

	<u><b>Cemetery Perpetual Care</b></u>	<u><b>Cemetery Memorial</b></u>	<u><b>Library Memorial</b></u>	<u><b>Total</b></u>
Additions:				
Investment earnings:				
Interest	\$ -	\$ -	\$ 19	\$ 19
Miscellaneous	<u>6,134</u>	<u>-</u>	<u>-</u>	<u>6,134</u>
Total additions	6,134	-	19	6,153
Deductions:				
Culture and recreation	<u>-</u>	<u>-</u>	<u>6,163</u>	<u>6,163</u>
Change in net assets	6,134	-	(6,144)	(10)
Net assets, beginning of year	<u>120,776</u>	<u>839</u>	<u>6,144</u>	<u>127,759</u>
Net assets, end of year	<u><u>\$ 126,910</u></u>	<u><u>\$ 839</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 127,749</u></u>

These financial statements should be read only in connection  
with the accompanying notes to the financial statements.

## **CITY OF MARION**

### **Notes to Financial Statements**

**June 30, 2005**

#### **(1) Summary of Significant Accounting Policies**

The City of Marion is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1865 and operates under the Home Rule Provisions of the Constitution of Iowa. It operates under a Council-Manager form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development and general administrative services. It also provides sewer and sanitation services.

The financial statements of the City of Marion have been prepared in conformity with generally accepted accounting principles (GAAP) in the United States of America as prescribed by the Governmental Accounting Standards Board.

##### **A. Reporting Entity**

For financial reporting purposes, the City of Marion has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Marion (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

##### **Discretely Presented Component Unit**

The Marion Municipal Water Department is presented in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City, but is financially accountable to the City. Its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Water Department is governed by a three-member board appointed by the City Council and the Water Department's operating budget is subject to the approval of the City Council.

##### **Jointly Governed Organizations**

The City also participates in three jointly governed organizations for which the City is either not financially accountable or the nature and significance of the organizations' relationships with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete. City officials are members of the following boards and commissions: Iowa League of Cities, Linn County Emergency Management Agency, Marion Economic Development Company (MEDCO) and Regional Planning Commission.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies** (continued)

**B. Basis of Presentation**

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services. Likewise, the City is reported separately from its component unit.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvements of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are consolidated into a single column within each fund type in the financial section of the basic financial statements and are detailed in the supplemental information.



**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies** (continued)

**B. Basis of Presentation** (continued)

The City of Marion reports the following major governmental funds:

General Fund - The General Fund accounts for all the financial resources of the City, except for those required to be accounted for by other funds. The revenues of the General Fund are primarily derived from general property taxes, charges for services, fines and forfeitures, licenses and permits and certain revenues from state and federal sources. The expenditures of the General Fund primarily relate to general administration, police and fire protection, streets and public buildings operation and maintenance and parks and recreation oriented activities.

Special Revenue Funds:

Road Use Tax Fund - The Road Use Tax Fund accounts for the maintenance of the City's infrastructure, such as streets, bridges and storm sewers. The revenues of the Road Use Tax Fund are primarily derived from state taxes. The expenditures of the Road Use Tax Fund primarily relate to the upkeep of the City's infrastructure.

Employee Benefits Fund - The Employee Benefits Fund accounts for the City's employee benefits. The revenues of the Employee Benefits Fund primarily come from property tax levies. The expenditures of the Employee Benefits Fund are for payment of the employee benefits in other funds.

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for, and the payment of, long-term and special debt principal, interest and related costs.

Capital Projects Fund - The Capital Projects Fund accounts for the construction or replacement of City fixed assets, such as streets, bridges, storm sewers, fire stations and City Hall.

The City of Marion reports the following major proprietary funds:

Sewer Rental Fund - The Sewer Rental Fund accounts for the operation and maintenance of the City's sewer system.

Solid Waste Fund - The Solid Waste Fund accounts for the operation and maintenance of the City's sanitary water system.

Additionally, the City of Marion reports the following fund types:

Internal service funds account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation (continued)**

Special revenue funds account for revenues derived from specific sources which are required to be accounted for as separate funds.

Fiduciary funds account for assets held by the City in an agency capacity for others and cannot be used to support the City's own programs. The City's fiduciary funds consists of:

Agency funds, which are custodial in nature, report on assets and liabilities and do not involve measurement of the results of operations.

Other enterprise funds account for operations and activities that are financed and operated in a manner similar to a private business enterprise, and where the costs of providing goods or services to the general public on a continuing basis are expected to be financed or recovered primarily through user charges, or where the City has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City has three funds classified as other enterprise funds and they are as follows: Sewer Rental Replacement, Solid Waste Replacement, and Storm Sewer Management.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, local option sales taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies (continued)**

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

Substantially all shared revenues are recorded when the underlying exchange transaction has occurred. For governmental funds, revenue from grant revenues is recorded as deferred revenue until they become available.

Revenue from federal awards is recognized when the City has done everything necessary to establish its right to revenue. For governmental funds, revenue from federal grants is recognized when they become both measurable and available. Expenditures of federal awards are recognized in the accounting period when the liability is incurred. Income from accounts receivable and unbilled usage is recognized when earned. Licenses and permits, fines and forfeits, fees and refunds, charges for service (other than enterprise), miscellaneous and other revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Special assessment receivables are recorded at the time of their levy. The related revenue is recognized at the time it is due in the governmental funds and when levied for government-wide statements.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected to follow subsequent private-sector guidance.

Transactions among City funds that would be treated as revenues and expenditures or expenses if they involved organizations external to City government are accounted for as revenues and expenditures or expenses in the funds involved.

Transactions which constitute reimbursements to a fund for expenditures initially made from it which are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the reimbursed fund.

Transactions which constitute the transfer of resources from a fund receiving revenues to a fund through which the revenues are to be expended are separately reported in the respective funds' operating statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

## CITY OF MARION

### Notes to Financial Statements

June 30, 2005

#### (1) Summary of Significant Accounting Policies (continued)

##### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of proprietary funds are user fees and charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

##### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the combined balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund, unless otherwise provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust, which is valued at amortized cost and non-negotiable certificates of deposit, which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the City Council to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2005. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the City Council to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City Council is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies** (continued)

**D. Assets, Liabilities and Fund Equity** (continued)

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1 ½ percent per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors by the City Council in March 2004.

Interest and Penalty on Property Tax Receivable - Interest and penalty on property tax receivable represents the amount of interest and penalty that was due and payable but has not been collected.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method. Inventories in the Special Revenue Funds consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are purchased. Reported inventories in the governmental fund financial statements are equally offset by a fund balance reserve which indicates that they are not available to liquidate current obligations.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g., roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government), are reported in the governmental activities column in the government-wide statement of net assets. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000.

Property and equipment of the City is depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimates Useful Lives (In Years)</u>
Buildings	40-50
Improvements other than buildings	5-50
Equipment	2-20

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies (continued)**

**D. Assets, Liabilities and Fund Equity (continued)**

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unspent grant proceeds.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2005. The compensated absences liability attributable to the governmental activities will be paid primarily by the General, Road Use Tax and Sewer Rental Funds.

Long-term Liabilities - In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets invested in capital assets, net of related debt excludes unspent debt proceeds. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Restricted resources are used first to fund appropriation. The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(1) Summary of Significant Accounting Policies (continued)**

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amount budgeted in any of the functions.

**(2) Deposits and Investments**

**Deposits**

The City's and its discretely presented component unit's deposits at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure that there will be no loss of public funds. At June 30, 2005, primary government deposits per City records totaled approximately \$14,481,920.

**Investments**

The City is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments listed on the following page are category 1, which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

	<b><u>Carrying Amount</u></b>	<b><u>Market Value</u></b>
United States Government Treasury and Agencies' securities	\$ 12,727,053	\$ 12,924,783
Money market accounts at brokerage firms	<u>202,993</u>	<u>202,993</u>
	<u>\$ 12,930,046</u>	<u>\$ 13,127,777</u>

In addition at June 30, 2005, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,971,292 pursuant to Rule 2a-7 under the Investment Company Act of 1940. This investment is not subject to risk categorization.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u><b>Transfer to</b></u>	<u><b>Transfer from</b></u>	<u><b>Amount</b></u>
General	Special Revenue:	
	Road Use Tax	\$ 20,000
	Sewer	10,000
	Police Retirement	272,331
	Trust and Agency	2,111,396
	Tax Stabilization	<u>100,000</u>
	<b>Total</b>	<u><b>\$2,513,727</b></u>
Special Revenue:	Special Revenue:	
Road Use Tax Replacement	Road Use Tax	<u>\$ 200,000</u>
Special Revenue:	General	\$ 26,783
Employee Benefits	Special Revenue:	
	Road Use Tax	38,619
	Enterprise:	
	Sewer Rental	13,875
	Solid Waste	<u>27,400</u>
	<b>Total</b>	<u><b>\$ 106,677</b></u>
Debt Service	Special Revenue:	
	Road Use Tax	\$ 81,180
	Enterprise:	
	Sewer Rental	87,918
	Solid Waste	16,236
	Storm Sewer	<u>16,259</u>
	<b>Total</b>	<u><b>\$ 201,593</b></u>
Capital Projects	General	<u><b>\$1,312,000</b></u>
Sewer	Sewer Replacement	<u>\$ 10,963</u>
Solid Waste	Solid Waste Replacement	<u>\$ 343,217</u>



**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2005 was as follows:

	<b><u>Balance Beginning of Year</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Balance End of Year</u></b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 48,589,497	\$ 3,125,729	\$ -	\$ 51,715,226
Construction in progress	<u>2,786,969</u>	<u>2,393,096</u>	<u>3,750,343</u>	<u>1,429,722</u>
Total capital assets not being depreciated	<u>51,376,466</u>	<u>5,518,825</u>	<u>3,750,343</u>	<u>53,144,948</u>
Capital assets being depreciated:				
Buildings	8,601,518	601,941	-	9,203,459
Improvements other than buildings	71,726,718	6,447,542	-	78,174,260
Equipment	<u>5,873,638</u>	<u>858,118</u>	<u>230,363</u>	<u>6,501,393</u>
Total capital assets being depreciated	<u>86,201,874</u>	<u>7,907,601</u>	<u>230,363</u>	<u>93,879,112</u>
Less accumulated depreciation for:				
Buildings	2,312,451	205,767	-	2,518,218
Improvements other than buildings	23,112,738	2,517,997	-	25,630,735
Equipment	<u>2,752,548</u>	<u>587,341</u>	<u>197,690</u>	<u>3,142,199</u>
Total accumulated depreciation	<u>28,177,737</u>	<u>3,311,105</u>	<u>197,690</u>	<u>31,291,152</u>
Total capital assets being depreciated, net	<u>58,024,137</u>	<u>4,596,496</u>	<u>32,673</u>	<u>62,587,960</u>
Governmental activities capital assets, net	<u>\$109,400,603</u>	<u>\$ 10,115,321</u>	<u>\$ 3,783,016</u>	<u>\$115,732,908</u>

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

(4) **Capital Assets** (continued)

Depreciation expense was charged to functions of the primary government as follows:

Government activities:	
Public safety	\$ 397,045
Public works	2,300,839
Culture and recreation	591,566
General government	<u>21,655</u>
 Total depreciation expense, governmental activities	 <u>\$ 3,311,105</u>

	<u><b>Balance Beginning of Year</b></u>	<u><b>Increases</b></u>	<u><b>Decreases</b></u>	<u><b>Balance End of Year</b></u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ <u>208,127</u>	\$ <u>226,766</u>	\$ <u>208,127</u>	\$ <u>226,766</u>
Capital assets being depreciated:				
Equipment	1,501,135	124,859	97,316	1,528,678
Distribution system	24,944,247	919,812	-	25,864,059
Storm sewer system	<u>261,704</u>	<u>197,164</u>	<u>-</u>	<u>458,868</u>
 Total capital assets being depreciated	 <u>26,707,086</u>	 <u>1,241,835</u>	 <u>97,316</u>	 <u>27,851,605</u>
Less accumulated depreciation for:				
Equipment	433,911	184,817	96,157	522,571
Distribution system	10,778,205	392,874	-	11,171,079
Storm sewer system	<u>-</u>	<u>9,007</u>	<u>-</u>	<u>9,007</u>
 Total accumulated depreciation	 <u>11,212,116</u>	 <u>586,698</u>	 <u>96,157</u>	 <u>11,702,657</u>
 Total capital assets being depreciated, net	 <u>15,494,970</u>	 <u>655,137</u>	 <u>1,159</u>	 <u>16,148,948</u>
 Business-type activities capital assets, net	 <u>\$ 15,703,097</u>	 <u>\$ 881,903</u>	 <u>\$ 209,286</u>	 <u>\$ 16,375,714</u>

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(4) Capital Assets (continued)**

Depreciation expense was charged to business-type activities as follows:

Business-type activities:	
Sewer	\$ 434,408
Solid waste	143,283
Systems	<u>9,007</u>
Total depreciation expense, business-type activities	<u>\$ 586,698</u>

**(5) Changes in Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	<b>General Obligation Bonds</b>	<b>Compensated Absences</b>	<b>Total</b>
Beginning balance	\$ 11,240,000	\$ 1,114,809	\$ 12,354,809
Increases	700,000	846,558	1,546,558
Decreases	<u>1,380,000</u>	<u>709,323</u>	<u>2,089,323</u>
Ending balance	<u>\$ 10,560,000</u>	<u>\$ 1,252,044</u>	<u>\$ 11,812,044</u>
Due within one year	<u>\$ 1,440,000</u>	<u>\$ 792,323</u>	<u>\$ 2,232,323</u>

**Bonds Payable**

A summary of the City's June 30, 2005 general obligation bond indebtedness is as follows:

<b><u>Year Ending June 30,</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2006	\$ 1,440,000	\$ 433,706	\$ 1,873,706
2007	1,195,000	362,123	1,557,123
2008	1,120,000	316,330	1,436,330
2009	1,170,000	272,828	1,442,828
2010	1,215,000	226,030	1,441,030
2011	1,075,000	176,615	1,251,615
2012	1,140,000	132,263	1,272,263
2013	685,000	84,328	769,328
2014	710,000	57,820	767,820
2015	440,000	29,570	469,570
2016	<u>370,000</u>	<u>13,690</u>	<u>383,690</u>
<b>Total</b>	<u>\$ 10,560,000</u>	<u>\$ 2,105,303</u>	<u>\$ 12,665,303</u>

## **CITY OF MARION**

### **Notes to Financial Statements**

**June 30, 2005**

#### **(6) Summary of Nonbonded Indebtedness**

During the year ended June 30, 2001, the City entered into an agreement with a donor to pay an annuity of \$25,000 each year for as long as the donor lives in exchange for a gift of 180 acres of land to be used for park purposes. Using an estimated life span based on annuity tables and discounted at the City's estimated incremental borrowing rate of 4.25 percent, an estimated liability of \$225,246 was calculated. This annuity liability is revalued annually based upon changes in life expectancy and discount rates.

Since the development of this land for park purposes is not expected to be fully completed for many years, the agreement with the donors allows the City to lease this land or any part of it for farming purposes pending full development. The City has entered into a three-year agreement to lease 170 acres of cropland at \$100 per acre per year, subject to proportionate reduction as land is developed.

#### **(7) Retirement System**

The City offers City employees the following retirement plans:

##### **Municipal Fire and Police Retirement System of Iowa**

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability and death benefits which are established by State statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 - 104<sup>th</sup> Street, Urbandale, Iowa 50322.

Plan members are required to contribute 9.35 percent of earnable compensation and the City's contribution rate may not be less than 25 percent of earnable compensation. Contribution requirements are established by State statute. The City's contributions to the Plan for the years ended June 30, 2005, 2004 and 2003 were \$813,723, \$612,232 and \$487,462, respectively, which met the required minimum contribution for each year.

##### **Iowa Public Employees Retirement System**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70 percent of their annual salary and the City is required to contribute 5.75 percent of annual covered payroll. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$229,211, \$214,469 and \$199,534, respectively, equal to the required contributions for each year.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(8) Compensated Absences**

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. Employees covered under the International Association of Firefighters contract are also eligible for compensation at normal retirement of accumulated sick leave in excess of 90 days, to a maximum payment of 60 days. Employees covered under the Marion Policeman's Protective Association contract are eligible for compensation at normal retirement of 50 percent of their sick leave accumulated, to a maximum of 60 days. For employees covered under the AFSCME contract, Marion Municipal Water Department employees and all other non-union City employees, sick leave can be accumulated but is payable only when used. Retiring employees of the Marion Municipal Water Department who have accumulated 30 or more days of unused sick leave are entitled to one and one-half months of regular pay as severance pay. City employees may also accumulate compensatory hours for overtime worked to be used subsequently or paid out upon termination, retirement or death. The City's approximate maximum liability for earned compensated absences payable to employees, including related tax and fringe amounts, is as follows:

Sick leave	\$ 459,721
Vacation and personal leave	655,208
Compensatory time	<u>137,115</u>
<b>Total</b>	<b><u>\$ 1,252,044</u></b>

The above liabilities have been computed based on rates of pay as of June 30, 2005.

**(9) Conduit Debt**

The City has issued \$33,570,000 of industrial development revenue and health care facility revenue bonds under provisions of Chapter 419 of the Code of Iowa.

The amounts of these bonds which were still outstanding at June 30, 2005 are not reported to the City by either the debtors or creditors. Therefore, outstanding balances are unknown. The bonds and related interest are payable solely from revenue of applicable projects. Bond principal and interest do not constitute liabilities of the City.

**(10) Employee Health Care Plan**

The City self-funds for health insurance claims to a stop-loss insured amount of \$30,000 per participant and a 125 percent aggregate stop-loss amount based on the "pure premiums" amount multiplied by the number of single and family contracts covered during the contract year. The following is a summary of claims paid during the year and an estimate of the claims incurred but not reported at June 30, 2005:

Claims paid during the year	\$ 939,776
Estimated claims incurred but unpaid at June 30, 2005	215,000

## **CITY OF MARION**

### **Notes to Financial Statements**

**June 30, 2005**

**(10) Employee Health Care Plan (continued)**

The City has chosen to establish a risk financing fund for risks associated with the employees' health insurance plan. The risk financing is accounted for as an internal service fund where assets are set aside for claim settlements. The cost of these benefits is charged to each department and fund based upon the number of employees whose salary is charged to the department and fund and the type of plan (single or family) chosen by the employee. Amounts charged are \$354 per month single or \$885 per month family, which is an actuarially determined amount with a reasonable provision for future unexpected claims. The amount charged will be adjusted over a reasonable period of time so that the internal service fund receipts and disbursements are approximately equal.

**(11) Related Party Transactions**

The Marion Municipal Water Department bills and collects for sewer and garbage services provided for the City of Marion to its residents. During the year ended June 30, 2005, the Marion Municipal Water Department collected and remitted to the City \$2,278,559 for sewer and \$1,007,997 for garbage service. Fees paid to the Water Department by the City during the year to pay for this service totaled \$68,194.

**(12) Local Government Risk Pool**

The City is a member in the Iowa Municipal Workers' Compensation Association (IMWCA). IMWCA is a local government risk sharing pool established for the purpose of managing and funding workers' compensation claims against its members. During the year ended June 30, 2005, the City remitted \$76,809 to IMWCA for workers' compensation premiums.

**(13) Notes Receivable**

The City has established a revolving loan program using funds from the repayment of loans previously made to local businesses through grants received from the Iowa Department of Economic Development using Community Development Block Grant funds. These loans bear interest at 3 percent and have monthly payments maturing through December, 2008. The outstanding balances of these loans at June 30, 2005 totaled \$38,598.

During the year ended June 30, 1998, the City accepted a note receivable for reimbursement of costs to extend a sanitary sewer to a new housing development. The amount is being repaid over ten years with interest at 6.5 percent. The outstanding balance at June 30, 2005 was \$41,065.

**CITY OF MARION**  
**Notes to Financial Statements**  
**June 30, 2005**

**(14) Primary Government**

The City is involved in construction of capital assets, mainly streets and sanitary sewer lines. At June 30, 2005, the City was committed to approximately \$1,308,754 in construction contracts, capital asset purchases and other services. Subsequently, the City approved approximately \$124,706 in construction contracts, capital asset purchases and other services. In addition, after June 30, 2005, the City has awarded a contract to build a new city hall in the amount of \$4,105,377.

**Litigation**

At June 30, 2005, the City was involved in various claims and lawsuits against the City that are being defended primarily through its insurance carriers. Counsel has indicated that, although the results are uncertain, insurance coverage is adequate to cover any judgments, claims or awards against the City.

The City has one lawsuit against it that the insurance company will not cover. The City's legal counsel has stated that the case is weak against the City and a favorable outcome is expected. The amount is not material to the City's financial statements taken as a whole.

**Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in the past three fiscal years.

**Component Unit**

The Water Department provides single premium health insurance coverage for a period not to exceed three continuous years for retirees with a minimum of 30 years of service.

## **REQUIRED SUPPLEMENTARY INFORMATION**



# CITY OF MARION

## Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - Governmental Funds and Proprietary Funds

### Required Supplementary Information

Year Ended June 30, 2005

	<b>Governmental Funds <u>Actual</u></b>	<b>Proprietary Funds <u>Actual</u></b>	<b>Total <u>Actual</u></b>
Revenues:			
Property taxes	\$ 10,986,538	\$ -	\$ 10,986,538
Tax increment financing	326,198	-	326,198
Other taxes	385,920	-	385,920
Licenses and permits	600,671	-	600,671
Use of money and property	918,477	201,850	1,120,327
Intergovernmental	3,141,478	-	3,141,478
Charges for services	362,948	3,385,825	3,748,773
Fines and forfeitures	193,254	-	193,254
Special assessments	58,994	389	59,383
Miscellaneous	<u>1,554,956</u>	<u>91,896</u>	<u>1,646,852</u>
Total receipts	<u>18,529,434</u>	<u>3,679,960</u>	<u>22,209,394</u>
Expenditures:			
Operating:			
Public safety	6,245,388	-	6,245,388
Public works	2,332,026	-	2,332,026
Culture and recreation	2,293,506	-	2,293,506
Community and economic development	1,014,799	-	1,014,799
General government	2,561,388	-	2,561,388
Debt service	1,970,226	-	1,970,226
Capital projects	4,248,807	-	4,248,807
Business-type activities	<u>-</u>	<u>2,932,079</u>	<u>2,932,079</u>
Total expenditures	<u>20,666,140</u>	<u>2,932,079</u>	<u>23,598,219</u>
Excess (deficiency) of revenues over (under) expenditures	(2,136,706)	747,881	(1,388,825)
Other financing sources (uses) net	<u>868,321</u>	<u>(171,888)</u>	<u>696,433</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,268,385)	575,993	(692,392)
Beginning fund balance	<u>25,131,775</u>	<u>5,942,566</u>	<u>31,074,341</u>
Ending fund balance	<u>\$ 23,863,390</u>	<u>\$ 6,518,559</u>	<u>\$ 30,381,949</u>

<b>Budgeted Amounts</b>		<b>Final to Actual Variance</b>
<b>Original</b>	<b>Final</b>	
\$ 10,660,635	\$ 10,660,635	\$ 325,903
267,972	267,972	58,226
337,881	337,881	48,039
407,225	407,225	193,446
946,825	946,825	173,502
3,462,837	3,462,837	(321,359)
3,470,000	3,470,000	278,773
184,700	172,000	21,254
11,250	11,250	48,133
<u>1,469,076</u>	<u>1,572,690</u>	<u>74,162</u>
<u>21,218,401</u>	<u>21,309,315</u>	<u>900,079</u>
6,314,048	6,424,048	178,660
2,451,843	2,516,843	184,817
2,454,353	2,464,353	170,847
1,169,367	1,169,367	154,568
2,970,235	2,970,235	408,847
1,916,534	1,981,534	11,308
9,720,939	9,110,939	4,862,132
<u>3,301,526</u>	<u>3,328,134</u>	<u>396,055</u>
<u>30,298,845</u>	<u>29,965,453</u>	<u>6,367,234</u>
(9,080,444)	(8,656,138)	7,267,313
<u>675,000</u>	<u>675,000</u>	<u>21,433</u>
(8,405,444)	(7,981,138)	7,288,746
<u>29,019,549</u>	<u>29,019,549</u>	<u>2,054,792</u>
<u>\$ 20,614,105</u>	<u>\$ 21,038,411</u>	<u>\$ 9,343,538</u>

**CITY OF MARION**

**Budget to GAAP Reconciliation**

**Required Supplementary Information**

**Year Ended June 30, 2005**

	<b>Government Funds</b>		
	<b><u>Cash Basis</u></b>	<b><u>Accrual Adjust- ments</u></b>	<b><u>Modified Accrual Basis</u></b>
Revenues	\$ 18,529,434	\$ (1,466,528)	\$ 17,062,906
Expenditures	<u>20,666,140</u>	<u>(819,714)</u>	<u>19,846,426</u>
Net	(2,136,706)	(646,814)	(2,783,520)
Other financing sources, net	868,321	-	868,321
Beginning balances	<u>25,131,773</u>	<u>(202,880)</u>	<u>24,928,893</u>
Ending balances	<u>\$ 23,863,388</u>	<u>\$ (849,694)</u>	<u>\$ 23,013,694</u>

<b>Proprietary Funds</b>		
<b>Enterprise</b>		
<b><u>Cash</u> <u>Basis</u></b>	<b><u>Accrual</u> <u>Adjust-</u> <u>ments</u></b>	<b><u>Accrual</u> <u>Basis</u></b>
\$ 3,679,960	\$ 17,818	\$ 3,697,778
<u>2,932,079</u>	<u>209,927</u>	<u>3,142,006</u>
747,881	(192,109)	555,772
(171,888)	843,471	671,583
<u>5,942,566</u>	<u>15,558,180</u>	<u>21,500,746</u>
<u>\$ 6,518,559</u>	<u>\$ 16,209,542</u>	<u>\$ 22,728,101</u>

These financial statements should be read only in connection  
with the accompanying notes to the financial statements

## **CITY OF MARION**

### **Notes to Required Supplementary Information - Budgetary Reporting**

#### **Year Ended June 30, 2005**

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$333,392. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements did not exceed the amount budgeted.

## **OTHER SUPPLEMENTARY INFORMATION**

**CITY OF MARION**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**

**June 30, 2005**

	<b>Special Revenue</b>			
	<b><u>Road Use Replacement</u></b>	<b><u>Tax Increment Financing</u></b>	<b><u>Community Development Block Grant</u></b>	<b><u>Police Retirement</u></b>
Assets:				
Cash and investments	\$ 519,640	\$ 380,482	\$ 122,098	\$ 783,220
Receivables:				
Accounts	-	1,180	-	-
Interest	835	-	-	1,899
Notes	<u>-</u>	<u>-</u>	<u>38,598</u>	<u>-</u>
Total assets	<u>\$ 520,475</u>	<u>\$ 381,662</u>	<u>\$ 160,696</u>	<u>\$ 785,119</u>
Liabilities:				
Accounts payable	\$ -	\$ 22,828	\$ 22,067	\$ -
Fund balances:				
Unreserved	<u>520,475</u>	<u>358,834</u>	<u>138,629</u>	<u>785,119</u>
Total liabilities and fund balances	<u>\$ 520,475</u>	<u>\$ 381,662</u>	<u>\$ 160,696</u>	<u>\$ 785,119</u>

<u>Employee Benefits</u>	<u>Sewer Assessment</u>	<u>Park Development</u>	<u>Maintenance Bond</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 1,568,285	\$ -	\$ 26,884	\$ 171,127	\$ 3,571,736
-	-	-	-	1,180
4,125	-	-	-	6,859
-	-	-	-	38,598
<u>\$ 1,572,410</u>	<u>\$ -</u>	<u>\$ 26,884</u>	<u>\$ 171,127</u>	<u>\$ 3,618,373</u>
\$ 5,775	\$ -	\$ 5,385	\$ -	\$ 56,055
<u>1,566,635</u>	<u>-</u>	<u>21,499</u>	<u>171,127</u>	<u>3,562,318</u>
<u>\$ 1,572,410</u>	<u>\$ -</u>	<u>\$ 26,884</u>	<u>\$ 171,127</u>	<u>\$ 3,618,373</u>

See accompanying independent auditors report.



**CITY OF MARION**

**Statement of Revenues, Expenditures  
and Changes in Fund Balance  
Nonmajor Governmental Funds**

**For the Year Ended June 30, 2005**

	<b>Special Revenue</b>			
	<b><u>Road Use Replacement</u></b>	<b><u>Tax Increment Financing</u></b>	<b><u>Community Development Block Grant</u></b>	<b><u>Police Retirement</u></b>
Revenues:				
Tax increment financing	\$ -	\$ 313,457	\$ -	\$ -
Use of money and property	18,517	-	3,341	39,097
Intergovernmental	-	-	4,560	-
Charges for services	-	-	-	-
Special assessments	-	-	-	-
Miscellaneous	-	-	(160)	-
Total revenue	<u>18,517</u>	<u>313,457</u>	<u>7,741</u>	<u>39,097</u>
Expenditures:				
Operating:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	361,840	53,664	-
Debt service	-	-	-	-
Capital projects	<u>413,470</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>413,470</u>	<u>361,840</u>	<u>53,664</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(394,953)</u>	<u>(48,383)</u>	<u>(45,923)</u>	<u>39,097</u>
Other financing sources (uses):				
Transfers in	200,000	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>(272,331)</u>
Net other financing sources (uses)	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>(272,331)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(194,953)	(48,383)	(45,923)	(233,234)
Beginning fund balance	<u>715,428</u>	<u>407,217</u>	<u>184,552</u>	<u>1,018,353</u>
Ending fund balance	<u>\$ 520,475</u>	<u>\$ 358,834</u>	<u>\$ 138,629</u>	<u>\$ 785,119</u>

<u>Employee Benefits</u>	<u>Sewer Assessment</u>	<u>Park Development</u>	<u>Maintenance Bond</u>	<u>Total Nonmajor Governmental Funds</u>
\$ -	\$ -	\$ -	\$ -	\$ 313,457
63,403	788	661	4,074	129,881
-	-	-	-	4,560
-	-	-	15,720	15,720
-	-	-	-	-
-	-	-	-	(160)
<u>63,403</u>	<u>788</u>	<u>661</u>	<u>19,794</u>	<u>463,458</u>
1,365	-	-	-	1,365
5,578	-	-	-	5,578
5,563	-	-	-	5,563
24,942	-	-	-	440,446
-	52,692	-	-	52,692
-	-	3,008	-	416,478
<u>37,448</u>	<u>52,692</u>	<u>3,008</u>	<u>-</u>	<u>922,122</u>
<u>25,955</u>	<u>(51,904)</u>	<u>(2,347)</u>	<u>19,794</u>	<u>(458,664)</u>
106,677	-	-	-	306,677
-	-	-	-	(272,331)
<u>106,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,346</u>
132,632	(51,904)	(2,347)	19,794	(424,318)
<u>1,434,003</u>	<u>51,904</u>	<u>23,846</u>	<u>151,333</u>	<u>3,986,636</u>
<u>\$ 1,566,635</u>	<u>\$ -</u>	<u>\$ 21,499</u>	<u>\$ 171,127</u>	<u>\$ 3,562,318</u>

See accompanying independent auditors report.

**CITY OF MARION**  
**Combining Statement of Net Assets**  
**Nonmajor Enterprise Funds**

**June 30, 2005**

	<b>Business-type Activities- Other Enterprise</b>			
	<b>Sewer Rent Replacement</b>	<b>Solid Waste Replacement</b>	<b>Storm Water Management</b>	<b>Total</b>
Assets:				
Current assets:				
Cash and investments	\$ 1,699,428	\$ 575,247	\$ 1,573,555	\$ 3,848,230
Receivables:				
Accounts	28	-	-	28
Unbilled revenue	-	-	-	-
Interest	<u>3,000</u>	<u>2,000</u>	<u>3,500</u>	<u>8,500</u>
Total current assets	<u>1,702,456</u>	<u>577,247</u>	<u>1,577,055</u>	<u>3,856,758</u>
Noncurrent assets:				
Notes receivable	41,065	-	-	41,065
Storm water system	-	-	458,868	458,868
Accumulated depreciation	-	-	(9,007)	(9,007)
Construction in progress	<u>15,660</u>	<u>48,609</u>	<u>36,959</u>	<u>101,228</u>
Total noncurrent assets	<u>56,725</u>	<u>48,609</u>	<u>486,820</u>	<u>592,154</u>
Total assets	<u>\$ 1,759,181</u>	<u>\$ 625,856</u>	<u>\$ 2,063,875</u>	<u>\$ 4,448,912</u>
Liabilities:				
Accounts payable	\$ 42,065	\$ -	\$ 5,314	\$ 47,379
Accrued payroll	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>42,065</u>	<u>-</u>	<u>5,314</u>	<u>47,379</u>
Net assets:				
Invested in capital assets, net of related debt	-	-	486,820	486,820
Restricted for:				
Future construction	1,717,116	625,856	1,571,741	3,914,713
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,717,116</u>	<u>\$ 625,856</u>	<u>\$ 2,058,561</u>	<u>\$ 4,401,533</u>

See accompanying independent auditors report.

## CITY OF MARION

**Combining Statement of Revenues, Expenses  
and Changes in Fund Net Assets  
Nonmajor Enterprise Funds**

**For the Year Ended June 30, 2005**

	<u>Business-type Activities- Sewer Rent Replacement</u>	<u>Other Solid Waste Replacement</u>	<u>Enterprise Storm Water Management</u>	<u>Total</u>
Operating revenue:				
Charges for services	\$ 304,191	\$ 150,986	\$ 375,157	\$ 830,334
Miscellaneous revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total operating revenue	<u>304,191</u>	<u>150,986</u>	<u>375,157</u>	<u>830,334</u>
Operating expense:				
Personal services	-	-	-	-
Services and commodities	83,229	-	28,443	111,672
Depreciation	<u>-</u>	<u>-</u>	<u>9,007</u>	<u>9,007</u>
Total operating expense	<u>83,229</u>	<u>-</u>	<u>37,450</u>	<u>120,679</u>
Operating income (loss)	<u>220,962</u>	<u>150,986</u>	<u>337,707</u>	<u>709,655</u>
Nonoperating revenue expense:				
Intergovernmental	-	-	-	-
Investment income	60,084	28,028	58,793	146,905
Special assessments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total nonoperating revenue	<u>60,084</u>	<u>28,028</u>	<u>58,793</u>	<u>146,905</u>
Income (loss) before contributions and transfers	281,046	179,014	396,500	856,560
Transfers out	<u>(10,963)</u>	<u>(343,217)</u>	<u>(16,459)</u>	<u>(370,639)</u>
Change in net assets	270,083	(164,203)	380,041	485,921
Beginning net assets	<u>1,447,033</u>	<u>790,059</u>	<u>1,678,520</u>	<u>3,915,612</u>
Ending net assets	<u>\$ 1,717,116</u>	<u>\$ 625,856</u>	<u>\$ 2,058,561</u>	<u>\$ 4,401,533</u>

See accompanying independent auditors report.

**CITY OF MARION**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**

**June 30, 2005**

	<b>Business-type Activities- Other Enterprise</b>			
	<b>Sewer Rent Replacement</b>	<b>Solid Waste Replacement</b>	<b>Storm Water Management</b>	<b>Total</b>
Cash flows from operating activities:				
Cash received from users	\$ 304,163	\$ 150,986	\$ 375,157	\$ 830,306
Cash paid to employees	-	-	-	-
Cash paid to suppliers	<u>(41,164)</u>	<u>-</u>	<u>(32,589)</u>	<u>(73,753)</u>
Net cash flows from operating activities	<u>262,999</u>	<u>150,986</u>	<u>342,568</u>	<u>756,553</u>
Cash flows from non-capital financing activities:				
Operating transfers in (out)	<u>-</u>	<u>-</u>	<u>(16,459)</u>	<u>(16,459)</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	<u>(15,660)</u>	<u>(136,269)</u>	<u>(36,959)</u>	<u>(188,888)</u>
Cash flows from investing activities:				
Interest from investments	60,084	28,028	58,793	146,905
Payments received on notes receivable	<u>14,933</u>	<u>-</u>	<u>-</u>	<u>14,933</u>
Net cash flows from Investing activities	<u>75,017</u>	<u>28,028</u>	<u>58,793</u>	<u>161,838</u>
Net increase (decrease) in cash and cash equivalents	322,356	42,745	347,943	713,044
Cash and cash equivalents, June 30, 2003	<u>763,572</u>	<u>130,502</u>	<u>462,477</u>	<u>1,356,551</u>
Cash and cash equivalents, June 30, 2004	<u>\$ 1,085,928</u>	<u>\$ 173,247</u>	<u>\$ 810,420</u>	<u>\$ 2,069,595</u>

See accompanying independent auditors report.

	<b><u>Business-type Activities- Other Enterprise</u></b>			
	<b><u>Sewer Rent Replacement</u></b>	<b><u>Solid Waste Replacement</u></b>	<b><u>Storm Water Management</u></b>	<b><u>Total</u></b>
Reconciliation of operating income (loss) to net cash flows from operating activities:				
Operating income (loss)	\$ 220,962	\$ 150,986	\$ 337,707	\$ 709,655
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:				
Depreciation expense	-	-	9,007	9,007
Change in assets and liabilities:				
Receivables	(28)	-	-	-
Due from other governments	-	-	-	(28)
Accounts payable	42,065	-	(4,146)	37,919
Accrued expenses	-	-	-	-
	<u>\$ 262,999</u>	<u>\$ 150,986</u>	<u>\$ 342,568</u>	<u>\$ 756,553</u>

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other  
Matters Based on Audit of Financial Statements Performed in  
Accordance With Government Auditing Standards**

To the Honorable Mayor and  
Members of the City Council  
Marion, Iowa

We have audited the financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Marion as of and for the year ended June 30, 2005 which collectively comprise City of Marion's basic financial statements and have issued our report thereon dated September 2, 2004.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Marion's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Marion's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items I-A-05.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Marion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompany Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report is intended solely for the information and use of the audit committee, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Marion during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Clifton Gunderson LLP*

Cedar Rapids, Iowa  
August 31, 2005



**CITY OF MARION**  
**Schedule of Findings**  
**Year Ended June 30, 2005**

**Part I: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

I-A-05     Segregation of duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that employees in the office can open mail, list out cash receipts and make bank deposits. Also, the individual responsible for maintaining cash records performs the monthly bank reconciliations. We also noted individuals can prepare and sign checks and also perform monthly bank reconciliations.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, we recommend that the City review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review their present internal control procedures and will consider additional review procedures where practical.

Conclusion - Response accepted. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

**CITY OF MARION**  
**Schedule of Findings**  
**Year Ended June 30, 2005**

**Part II: Findings Related to Statutory Reporting**

- II-A-05     Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts in the resolution were not exceeded during the year ended June 30, 2005.
- II-B-05     Certified Budget - Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.
- II-C-05     Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-05     Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-E-05     Business Transactions - We noted no business transactions between the City and City officials or employees.
- II-F-05     Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should continue to be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05     Council Minutes - We noted no transactions that we believe should have been approved in the council minutes and were not.
- II-H-05     Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**CITY OF MARION**

**Audit Staff**

This audit was performed by:

William E. Murray, CPA, Audit Partner

Andrew J. Johnson

Tim Wood, CPA

Justin Zimmerman, CPA

Tonya Determan